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Delivering on Commitments

Budget 2005



Achieving
a Productive
and Sustainable
Economy

February 23, 2005

Canada

Canada's Remarkable Economic and Fiscal Success

Since eliminating the deficit in 1997, the Government has taken a balanced approach to reducing debt, reducing taxes, and investing in social and economic priorities.

This balanced approach is working. Canada stands out among the Group of Seven (G-7) major industrialized countries with:

- The best job creation record—more than 3 million new jobs.
- The fastest-growing living standards.
- Low and stable inflation and interest rates.

With the Government of Canada's seven consecutive surpluses, the federal debt has been reduced by more than \$61 billion. Canada has moved from having the second worst debt-to-GDP ratio in the G-7 to having the best. The Government's strong fiscal position and lower debt burden have meant more resources for building a better country rather than paying creditors.

Budget 2005—Delivering on Commitments

The Government of Canada has presented an ambitious agenda and clear commitments to Canadians. Budget 2005 delivers on the Government of Canada's commitments in the following areas:

- 1 Investing in people
- 2 Investing in ideas and enabling technologies
- 3 Investing in regions and sectors

- 4 Maintaining a fair and competitive tax system
- 5 Making markets more efficient and effective

No single budget can accomplish every goal at once. That is why Budget 2005 measures have been designed to build on actions taken in previous budgets, while setting the stage for further improvements as the Government can afford them.

1 Investing in People

As baby boomers prepare to retire in large numbers during the coming years, it is clear that the number of working Canadians will decline in proportion to the population as a whole. This means that, to secure future growth in living standards, Canada must have a highly skilled and adaptable labour force that can respond to and drive the economy of tomorrow.

This challenge demands new approaches to strengthening opportunities for learning and skills at all stages of life. Budget 2005 makes several key investments aimed at meeting this challenge:

- \$5 billion over five years to build the framework for a new shared Early Learning and Child Care initiative in collaboration with the provinces and territories.
- \$120 million over five years to improve the Special Education Program for First Nations children on reserve.

■ \$398 million over five years to make services more responsive to the needs of immigrants, and enhance settlement and integration programs to help newcomers to Canada become fully contributing members of the workforce more quickly.

■ \$125 million over the next three years to move forward on a Workplace Skills Strategy to help workers keep pace with changing requirements.

■ \$30 million over three years to enhance the capacity of the National Literacy Secretariat to foster awareness of literacy issues and to promote learning in the workplace.

2 Investing in Ideas and Enabling Technologies

Research is crucial to improving our environment, advancing our health care system and making Canadian firms more productive and competitive. That is why the Government of Canada will continue to do its part—along with universities and the private sector—to promote research and new technologies.

Budget 2005 provides \$810 million in strategic investments in ideas and enabling technologies over the next five years. These include:

■ \$375 million over five years for the three federal granting councils—the Canadian Institutes of Health Research, the Natural Sciences and Engineering Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.



- Increasing funding to universities and research hospitals for the indirect costs of federally sponsored research, bringing the total to \$260 million per year from \$245 million starting in 2005–06.
- \$125 million over five years for world-leading particle physics research at the Tri-University Meson Facility (TRIUMF) science facility in British Columbia.
- \$30 million for the Canadian Academies of Science to provide independent expert assessments of the science underlying key issues.
- \$165 million for Genome Canada in support of breakthrough genomics research.
- \$20 million for Precarn, which specializes in advanced robotics and artificial intelligence.

These initiatives build on the \$11 billion added by the Government of Canada in university-based research since 1998.

3 Investing in Regions and Sectors

The Government of Canada is committed to strengthening its support for regional and sectoral development to ensure that all of Canada's regions and economic sectors can contribute to—and benefit from—economic growth and rising living standards.

Budget 2005 delivers on this commitment through investments totalling \$1.2 billion in regional development initiatives in all parts of Canada. This includes:

- \$800 million for regional economic development agencies in Atlantic Canada, Western Canada, Quebec and Northern Ontario.
- \$120 million for the Northern Strategy to help Canada's three territories promote economic development.
- \$55 million over the next five years for Community Futures Organizations, which provide loans to small businesses in every province and territory of Canada.

Budget 2005 also increases funding to key sectors of Canada's economy, such as agriculture and energy.

4 Maintaining a Fair and Competitive Tax System

Budget 2005 will reduce taxes for all taxpayers—especially those with low and modest incomes. It will also maintain Canada's corporate tax advantage relative to the United States. Once the measures in Budget 2005 are fully in place:

- Taxpayers will no longer pay any federal tax on income up to \$10,000 (see box below).
- Registered retirement savings plan and registered pension plan limits will increase to \$22,000 to support savings and investment.
- The corporate surtax, originally introduced to help fight the federal deficit, will be eliminated.
- The general corporate income tax rate will be reduced to 19 per cent from 21 per cent.

Increasing the Basic Personal Amount

Currently, individuals can earn up to about \$8,000 without paying federal personal income tax. Income above that level is subject to federal tax.

By 2009, the amount that individuals can earn tax-free will increase to at least \$10,000.

This measure will provide tax relief for all taxpayers—worth about \$7.1 billion over the next five years.

Most of the benefit will go to those with low and modest incomes. For example, this measure will remove 860,000 low-income taxpayers from the tax rolls, including about 240,000 seniors.

Legislation to implement these measures will be introduced at the earliest opportunity.

5 Making Markets More Efficient and Effective

The Government of Canada is committed to creating a more favourable climate for business and investment—not only by reducing taxes but also through more efficient regulation.

Budget 2005 delivers on this commitment through various regulatory reforms and related initiatives that will help stimulate economic growth. These include:

- Eliminating the 30-per-cent foreign property limit on pension investments effective immediately.

- Launching a review of legislation governing Canada's financial institutions to improve consumer protection and promote greater efficiency.
- Increasing deposit insurance coverage to \$100,000 from \$60,000 to better protect consumers.
- Reducing overlap and duplication between federal agencies that regulate Canada's financial sector.

The Government of Canada will also work with the provinces and territories to improve securities regulation.

How Can I Get More Information on Budget 2005?

Information is available on the Internet at www.fin.gc.ca or by phoning:

1 800 O-Canada (1 800 622-6232)
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